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REED STENHOUSE



ANNUAL REPORT 1981



A World Of Experience

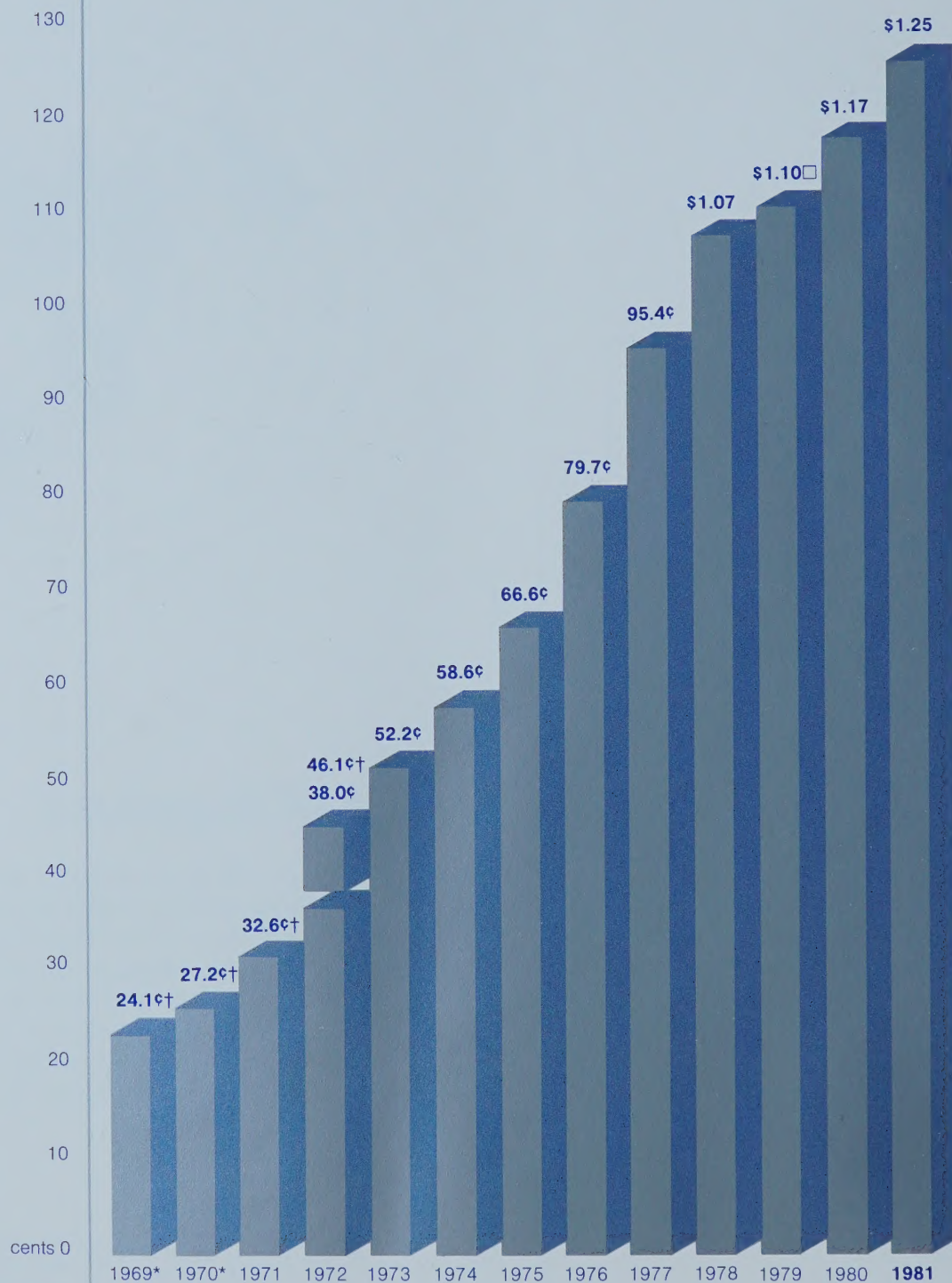
Reed Stenhouse is one of the world's leading insurance and reinsurance broking and risk management companies. The experience and expertise of the Reed Stenhouse professional staff, located in over 180 offices in 33 countries, is available to service the diverse and complex requirements of its thousands of local, national and international clients. Meeting the challenge of providing effective and efficient risk management in all forms has been our continuing responsibility for over one hundred years.

Une version française du présent rapport est disponible sur demande à l'adresse suivante :

Le Secrétaire
Les Compagnies Reed Stenhouse, Limitée
B.P. 250
Toronto Dominion Centre
Toronto Canada M5K 1J6

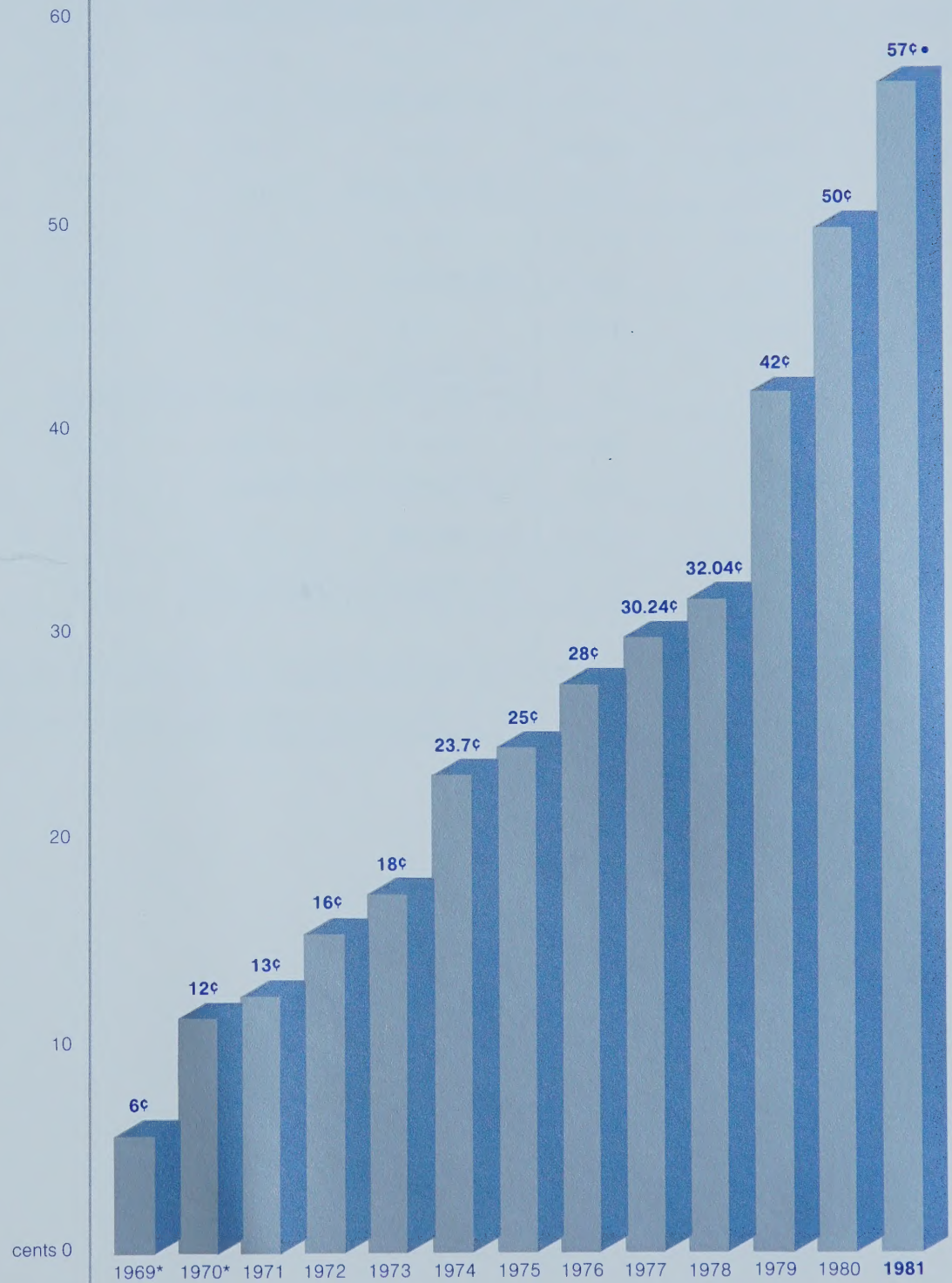
Financial Highlights

Net Earnings Per Share



† The merger with Reed Stenhouse & Partners Limited effective October 1, 1972 was accounted for as a pooling of interests. The restated net earnings per share for 1972 reflect this accounting concept. Net earnings per share for 1969-1971 are on an historical basis as it is not practicable to restate those amounts for the merger with Reed Stenhouse & Partners Limited.
□ In fiscal year 1979, an extraordinary item increased the net earnings per share to \$1.28 from a net operating profit of \$1.10 per share.

Dividends Per Share



* Adjusted to reflect share split in 1971.

• Current indicated annual dividend rate is 60¢ per share.

Ten Year Summary of Operating Results

(in thousands)	1972†	1973‡
Commissions and fees earned — net	\$22,029	\$56,742
Interest, dividend and rental income	675	2,906
	22,704	59,648
Operating expenses	17,808	44,664
	4,896	14,984
Interest expense	96	198
	4,800	14,786
Income taxes	2,322	7,047
	2,478	7,739
Add (deduct)		
Earnings from affiliates less minority interests		(49)
	2,478	7,690
Reduction of intangible assets		
Net earnings	\$ 2,478	\$ 7,690
Net earnings per Class "A" share	38.0¢	52.2¢

† The figures for 1972 are the historic earnings of the company prior to its merger with Reed Stenhouse & Partners Limited and these figures have not been restated to reflect the merger.

‡ From 1973 the figures include the consolidated earnings of Reed Stenhouse & Partners Limited which merged with the company effective October 1, 1972.

1974	1975	1976	1977	1978	1979	1980	1981
\$75,166	\$92,768	\$105,313	\$127,599	\$152,955	\$179,615	\$208,332	\$245,954
5,476	5,792	6,604	7,919	9,240	12,950	18,028	23,704
80,642	98,560	111,917	135,518	162,195	192,565	226,360	269,658
61,639	75,136	85,324	104,462	127,305	155,577	187,459	224,242
19,003	23,424	26,593	31,056	34,890	36,988	38,901	45,416
1,342	3,638	2,651	2,290	2,111	2,678	3,504	4,812
17,661	19,786	23,942	28,766	32,779	34,310	35,397	40,604
8,814	9,472	11,694	13,970	16,332	17,402	17,357	20,176
8,847	10,314	12,248	14,796	16,447	16,908	18,040	20,428
(102)	(107)	(39)	(200)	(31)	84	82	(920)
8,745	10,207	12,209	14,596	16,416	16,992	18,122	19,508
(37)	(303)	(369)	(396)	(387)	(407)	(506)	(532)
\$ 8,708	\$ 9,904	\$ 11,840	\$ 14,200	\$ 16,029	\$ 16,585*	\$ 17,616	\$ 18,976
58.6¢	66.6¢	79.7¢	95.4¢	\$1.07	\$1.10*	\$1.17	\$1.25

* Net earnings for 1979 are before an extraordinary item.

Report to Shareholders

A year ago we indicated that notwithstanding the uncertain international economic climate and continuing highly competitive insurance premium rates, we anticipated a 'satisfactory' increase in profits in the 1981 fiscal period. Our assessment was correct, and we are pleased that your company was able to record an increase in revenues and net earnings in a difficult year. Our broad geographic spread of activity, supported by a major effort to improve our market penetration in all areas, was the major contributor.

With revenues improving by 19% to \$270,000,000 and net earnings up 8% to \$19,000,000, your directors, in accordance with our established dividend policy, increased the quarterly dividend to 15¢ per Class A share.

The Report on Operations which follows describes in general our present position and future plans in the various countries in which we operate. A brief summary of 1981 results shows that:

- Canada continued to perform strongly with a 15% increase to \$21,600,000 in operating profit surpassing last year's very material contribution.
- Our operations in the United Kingdom and Ireland recorded a 6% increase to almost \$15,000,000, despite extremely severe economic conditions and a minor unfavourable change in the Sterling exchange rate.
- Revenues of our U.S. companies rose from \$36,400,000 to \$45,800,000, but development expenses in excess of \$2,000,000, which are of significant ongoing benefit to other areas of the company, are reflected in the increase in the combined net operating loss of \$500,000.
- Australia, New Zealand and South East Asia collectively recorded an increase of almost 40% in operating profit to \$7,800,000 with most of the improvement occurring in Australia.

— Other sectors making strong contributions to the company's overall results were its growing Bermuda activities and Société Générale de Courtage d'Assurances S.A. of France, the publicly listed company in which Reed Stenhouse has an approximately 50% equity position, which produced a total pre-tax profit of F.12,427,000 compared to F.7,944,000 in 1980 and F.3,040,000 in 1979.

The following were among several acquisitions and other corporate changes which took place during the fiscal year:

- A brokerage was acquired in Anchorage, Alaska and an office was established in Minneapolis, Minnesota, continuing our U.S. expansion.
- In partnership with Italian interests we formed Reed Stenhouse SpA, headquartered in Turin.
- We merged our Zimbabwe operations into a new entity, Associated Brokers International (PVT) Ltd.
- In the United Kingdom, Stenhouse Syndicates Ltd. was formed with your company retaining 40% of the equity of the enlarged Lloyd's underwriting agency management operation.
- Shortly before the end of the year Continental Life PLC and Continental Pensions PLC were organized in the United Kingdom in partnership with the Continental Corporation. We are enthusiastic about the prospects of these new specialized life and pension underwriting companies.

Our other joint venture with the Continental Corporation, Continental Reed Stenhouse Management Company Ltd., has made considerable progress in its activities on the New York Insurance Exchange. The two syndicates which we manage are among the largest in terms of capitalization, and were the leading writers of facultative reinsurance on the Exchange. There are now 25 operating NYIE syndicates, including one which is made up entirely of individuals rather than corporations, and in 1981 there was a substantial increase in the over-all volume of business placed.

It perhaps would be useful to expand on our allusions in this and past annual reports to programmed development expenses. Among those which are of particular significance are:

— A commitment to the redesign of our systems to take advantage of modern computer technology. We have undertaken a major capital and expense investment programme which we are confident will result in a material improvement in efficiency and an equally noticeable ultimate reduction in operating costs.

— We are actively engaged in expanding our capability to provide actuarial and consulting services in the employee benefits field, particularly as they apply to clients operating in more than one jurisdiction. We believe we have an excellent opportunity to establish ourselves as a major source of advice to multi-national organizations as well as strengthening our domestic business.

— Our most important goal remains the growth and enhancement of our operations in the United States. Although we believe that we are close to achieving the broad geographic spread of offices needed to develop a major presence, we remain convinced that our objective of recording positive financial results in the short term is balanced by the requirement to consolidate our position for the future. In this connection it was gratifying to see an increase in gross revenues of 25% in 1981; as our volume grows so will our capacity to absorb the development and acquisition costs.

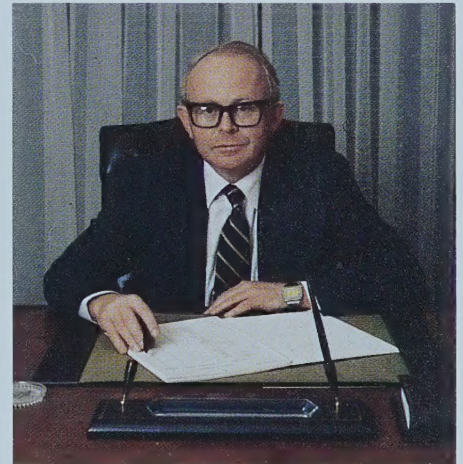
Looking ahead, we continue to be concerned about the stability of insurance markets. In Australia the underwriting deficit of insurers increased threefold in one year, with several showing deficiencies in provision for outstanding claims. The North American market is also in difficulty. Two insurance companies recently became insolvent in Canada, and in the case of one of them your company felt required to make a heavy commitment of both time and expense to meet our industry responsibilities and to protect

the interests of our clients. The scene in the United States appears equally difficult with intense price competition exacerbated by the determination of existing companies to increase market share and by the entry of new domestic and foreign interests into the business.

We are beginning to see signs, particularly in Canada, of a hardening of rates with respect to some classes of business. We believe higher rates are essential for the industry so that our clients can be confident they will be promptly and properly compensated when claims occur.

Even if premium rates do begin to rise in 1982, we do not expect to feel the impact during our current fiscal year. With a projected further adverse change in the rate of exchange of Sterling, and recognizing the effect of our continuing heavy investment in medium and long term development, an all out effort will once again be required if your company is to record, as it has every year since its formation, an increase in earnings. We are confident this effort will be successful. Although we anticipate an increased loss in our first quarter compared to a year ago, we believe that the results for the full year will surpass 1981 as our worldwide market penetration continues to improve and we begin to see the fruits of our investment in development. Our longer term view remains even more positive as insurers move to achieve equilibrium between premiums and losses and thus create a more stable market at generally higher premium rates.

On behalf of the Board of Directors, I am happy to express our pleasure at the way in which our staff, now numbering some 5,600, rose to the challenge of the past year. Working with increased energy and enthusiasm in difficult market conditions they fulfilled our commitment to our clients to provide protection and service in the best manner possible. Shareholders can continue to enjoy the confidence that the responsibility and trust we place in their hands is well justified.



William M. Wilson
President and
Chief Executive Officer
January 6, 1982

Report on Operations

Canada

It is gratifying to be able to report that despite negative economic and business influences, the 1981 budgeted profit was achieved.

During the year insurance rate reductions continued, although automobile rates in both personal lines and commercial risks showed an upward trend towards the end of the year. High inflation and a flat economy prevailed throughout most of Canada. In spite of this, we had a successful year, attributable mainly to an excellent new business effort from all offices and substantial growth in Calgary. High interest rates, coupled with improved collection procedures, also had a favourable impact on profit.

Business in western Canada was stronger in 1981 than in the remainder of the country. Although there has been some curtailment of oil and gas exploration in Alberta, there were other large projects undertaken relating to the general infrastructure supporting the development, transport and use of energy.

We are particularly pleased with the results shown by our national business development programme during the year. This, coupled with past acquisitions and our most recent in Thunder Bay, has provided the company with a larger operational base for future growth.

Activities in areas other than major general insurance coverages also con-

tinue to grow. New procedures for handling personal insurances have produced an appreciable improvement in profit margins. Our employee benefit division has generated an increased volume of new business which has contributed to the Canadian profits.

During the year we continued our extensive study of the design of various financial and general information systems which will form the base for the company's future processing requirements. These systems are scheduled to go on line in 1983 and will provide new efficiencies.

In view of the uncertain prospects for the Canadian economy in 1982, we have prepared our Profit Plan cautiously. In our budgeting process we were



required to contemplate a substantial increase in our employee compensation requirements to remain abreast with market conditions and inflationary trends. We believe, however, that our aggressive sales and service attitude will allow us to meet our ambitious production and profit targets.

(Left) Reed Stenhouse experience in two vital fields — aviation and mining — is valuable in handling insurance requirements for a Canadian client specializing in airborne geophysical surveys.

(Right) Arranging coverages for clients in the aerospace industries requires teamwork from many of the company's specialists around the world. A major U.S. client of Reed Stenhouse is involved in manufacturing electronic components for spacecraft and commercial and military aircraft.

(Below) An off-shore platform rig in the Mediterranean area is operated by a Canadian-based multinational client. Reed Stenhouse is heavily involved in arranging coverages for both off-shore and land-based energy projects in many parts of the world



United States of America

In fiscal 1981 Reed Stenhouse Inc. recorded a further improvement in revenues and a modest operating profit prior to absorption of acquisition expenses and programmed development costs. Great Eastern Associates Inc., our marine broking arm, continued its outstanding performance over many years and produced record gross and net income. Our reinsurance broking operation, Sten-Re, Cole & Associates, Inc., in its second year also made a substantial contribution to profits.

While our major commercial and industrial broking activities continue to draw upon the financial resources of our worldwide organization, they also make a substantial contribution to our operations outside the United States. The U.S. company through its Reed Risk Management Inc. division is relied upon to provide its sister companies throughout



the world with risk financing analysis and loss control services, as well as the development of risk management information systems tailored to the specific needs of international clients. Reed Stenhouse International Inc. similarly assists in developing business which is recorded in the accounts of other companies in the group. Rarely is the American operation appropriately compensated for the provision of these services.

Almost eight years ago we entered the U.S. market, which represents approximately one half of the world's total insurance premium volume. Our objective was to establish a national entity by building or acquiring efficient and strategically located insurance businesses throughout the country. Today, operating in over 20 U.S. cities, and recording a significant level of premium volume, it can be said that the company is already a noticeable factor in the U.S. insurance market, and is positioned to take advantage of the group's internationality in attracting the business of American multi-national companies as well as serving domestic clients. No other broker from outside the U.S. has attempted, much less succeeded in such a venture.

(Above Left) With greatly increased exposures and costs now facing heavy industry, innovative insurance coverages are required by manufacturers, including this U.S. client company which supplies a variety of industrial products to manufacturing firms

(Left) Providing insurance services for the defence industry is a major activity of Reed Stenhouse in the United States. The expertise of the company's specialists all over the world assists in meeting the complex insurance needs of today's high technology systems, including the new Trident submarine being launched.

(Right) The global need for new oil and gas reserves has taken industry into remote locations and deep water conditions, where Reed Stenhouse assists in providing coverages and risk management services for not only the production systems, but for the necessary support functions.



United Kingdom and Ireland

Continuing adverse market conditions and the prolonged weakness in the economy virtually eliminated growth in Reed Stenhouse's business with existing clients in the United Kingdom. However, a partial offset was obtained by material new business development and tight control of expenses. Encouraging progress was made by all technical departments in the design of clients' international insurance coverages and in the provision of services through the group's worldwide network.

Reed Stenhouse Benefit Consultants made a substantial advance in profits, with the Julian Gibbs group, acquired late in the previous fiscal year, making an excellent contribution. Both of the Exempt Unit Pension Funds again showed satisfactory growth. Reed Stenhouse Investment Services, which manages a significant part of the Exempt Funds, continued to expand its activities and performed well in the management of the various funds under its control.

(Below) International transportation and bulk handling require comprehensive insurance programmes, which Reed Stenhouse achieves through its network of offices and experts worldwide. At a U.K. client's operation, alumina is being off-loaded.



(Above) The challenge of maintaining acceptable environmental conditions requires increasingly larger capital investments by governments and industry. In Spain, a Reed Stenhouse client's water and residual treatment facility services a wide population and industrial base.

Reed Stenhouse Marketing, the group's main Lloyd's broking company, enjoyed substantially higher revenues and profits. Although the very competitive international environment in general resulted in a greater proportion of premiums being placed outside the London Market, the company's volume nevertheless increased as a result of the expansion of its specialist activities, particularly the aviation and oil and gas divisions. In addition, the weakening of Sterling during the latter part of the year contributed significantly to the improved results.

Despite unfavourable market conditions, our reinsurance broking arm, Sten-Re Ltd., recorded a sizeable increase in profits as a result of its geographical expansion. Premium rates in the U.K. were still depressed but, as with Reed Stenhouse Marketing, the weakness of the pound in the second half of the year more than offset rate reductions.

During the year, your company's underwriting management operations at Lloyd's were changed through a merger with four established underwriting management companies which recently had been acquired by Stenhouse Holdings Limited. Your company now holds a 40% interest in the resulting entity which manages twelve syndicates at Lloyd's.



Europe

Our associated company in France, Société Générale de Courtage d'Assurances, recorded a further substantial increase in profits over last year's record level, notwithstanding the fact the market continues to be very competitive. New business increased as a result of strengthening the development team and using our improved technical resources. This, together with further systems development, contributed towards excellent results.

Belgian operations successfully built upon last year's improvement in profitability. Trading difficulties arising from the economy and underwriting conditions in the market did not ease during the year but the benefits of the reorganization undertaken in previous years enabled the company to move towards its objective of improved service to clients.

In partnership with a major Italian banking corporation, in January the company purchased a Turin-based insurance broking business with branch offices in Milan and Rome. The small trading loss for the period to year-end is not indicative of a full year's trading as a large part of the portfolio has renewal dates from October to December. This acquisition has considerable potential for the development of new business in the immediate and long term.

The company increased its geographical spread further by setting up a new operation in Madrid and Barcelona, Spain, in which it holds 50% of the equity. This addition provides a useful link to our worldwide network in its ability to provide local service for international clients. New business from this and other sources is encouraging.

Elsewhere in Europe, we enjoy an enhanced representation in Sweden and have expanded our insurance and reinsurance activities in Geneva and Zurich, Switzerland.

The international nature of today's energy industries demands a truly international approach to the provision of their insurance services, a significant strength of Reed Stenhouse. This oil refinery is only one of many throughout the globe operated by a French-based petroleum client



Australia and Papua New Guinea

The Australian and Papua New Guinea groups reported another year of increased profits, reflecting improved broking profit levels and the benefits of continuing high interest rates.

Economic conditions were relatively buoyant and in the second half of the year under review, the underwriting losses incurred by insurers in recent years finally resulted in a firming and, in some classes of business, particularly workmen's compensation, an upward movement in premium rates.

New business development again reached a record level and income growth on existing business exceeded expectations, particularly in large resource projects.

New Zealand and Fiji

Throughout the year, the market in New Zealand maintained relative stability. The broader covers now available had a marked effect on the growth of existing business. New business made a significant contribution to premium growth. As a result of these factors, profits reached a record level.

In Fiji, the company maintained its profits and improved its share of the market. During the year an active development programme was put into effect from which it is hoped to derive increased income levels in the coming year.

(Above) Providing insurance services to manufacturers of consumer goods, as well as industrial products, is also important to Reed Stenhouse. An insured in New Zealand has its carpet manufacturing and exporting coverages arranged through the company

(Below) Reed Stenhouse involvement with the food industry has grown to encompass everything from planting and production through processing and packaging to distribution and delivery. An insured in Hong Kong is a major manufacturer of noodles and other flour-based foods



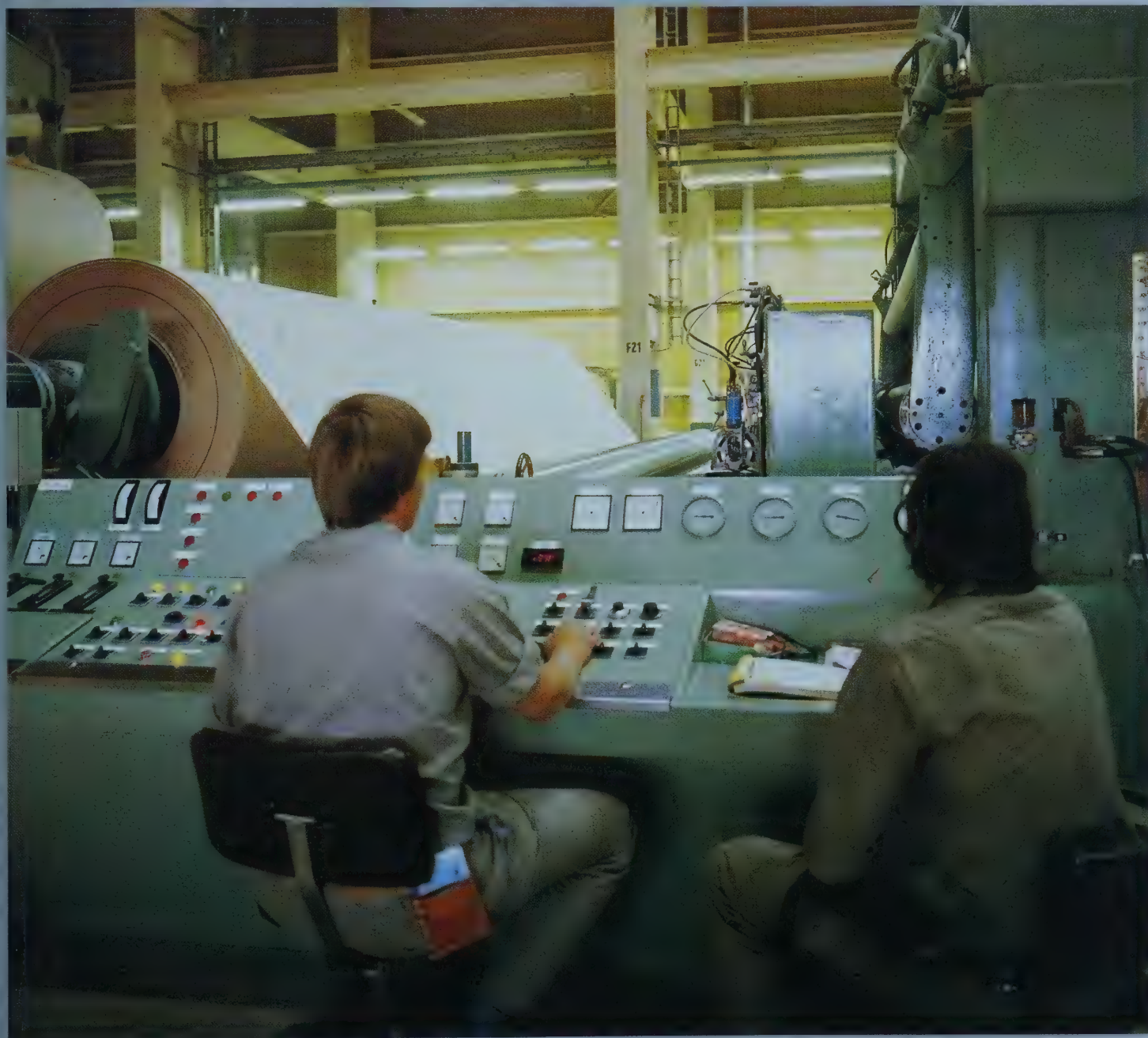
South East Asia

Despite increasingly competitive market conditions in the main operating areas, the company is now benefiting from economic growth in the region and its own network of offices in the fields of direct broking, reinsurance broking and underwriting management.

Reed Stenhouse creates and implements a wide range of insurance and loss-prevention programmes internationally for clients with modern plants, including this major pulp and paper facility in Australia.

South Africa

The soft market referred to in last year's annual report continued. Nevertheless, there was a satisfactory increase in profits due mainly to improved new business development and containment of costs. Profits are benefiting also from rationalization of the merger consummated three years ago.



International Marketing, Development and Services

The complex requirements of major accounts continue to expand the role of our international specialist groups. Their closely related activities require co-ordination and this has been achieved.

Our development programme in the United States continues to open the door to new multi-national business and there is growing awareness of our international capabilities.

The expansion of our brokerage operations in Italy and Spain further strength-

ens the ability of Reed Stenhouse International to provide a consistent and comprehensive service. The recent establishment of an international co-ordinating committee in Europe, together with increased use of electronics, facilitates the administration of multi-national insurance programmes.

With the marked trend for European and U.K. companies to establish operations in North and South America, there is an increased demand for a number of the services provided by Reed Risk Management Inc.

Specialized professional services are particularly critical to the effectiveness of

a captive insurance company. The continued success of Insurance Managers Limited in Bermuda is testimony to our established position in this area. We made substantial staff increases in Bermuda to accommodate the growth we see ahead. Reed Stenhouse International Insurance Services Limited also has expanded its insurance and reinsurance broking activities.

In an international sense we have the geographical ability to provide a comprehensive range of employee benefits services to meet the requirements of multi-national clients.



The development of the worldwide aviation business offers significant opportunities. This insurance requires heavy emphasis on our specialist skills and we have assumed a prominent position in the Canadian and London aviation markets as a result. We are confident about our future ability to expand in the vast U.S. market, and elsewhere.

(Left) In support of energy exploration, Reed Stenhouse arranges extensive insurance programmes for a U.S. firm which operates a large marine fleet in many key active off-shore areas

(Right) Innovative approaches to insurance programmes are demanded by smaller enterprises as well as by large industry. Reed Stenhouse's professionalism is used by this U.S. insured, which specializes in converting luxury automobiles into highly individualistic personal touring cars.

(Below) From very early in its history, Reed Stenhouse has provided insurances for numerous natural resource operations. A South Pacific client's involvement extends not only to the harvesting of trees but to concern for their replacement through reforestation.



Principal Subsidiaries and Affiliates

P.O. Box 250, Toronto Dominion Centre,
Toronto, Canada M5K 1J6 (416) 868-5500

Australia

Reed Stenhouse Ltd.
Sten-Re (Australia) Ltd.

Belgium

N.V. Reed Stenhouse S.A.

Bermuda

Insurance Managers Limited
Reed Stenhouse International
Insurance Services Limited
Sten-Re (Bermuda) Ltd.
Scottish & Commonwealth
Insurance Company Limited

Canada

Reed Stenhouse Limited
Ducketts Limited
Société de Courtage Meloche Limitée
J. Meloche Inc.
Reed Stenhouse Personal Insurance Limited
Reed Risk Management International Limited
Reed Stenhouse Associates Limited
Universal Reinsurance Intermediaries Limited
Crosbie Reed Stenhouse Limited
H.B. Group Insurance Management Ltd.

Fiji

Reed Stenhouse Ltd.

France

Société Générale de Courtage
d'Assurances S.A.
Consortium International de Reassurances

Greece

Sten-Re (Greece) Ltd.

Hong Kong

Reed Stenhouse South China Ltd.

Italy

Reed Stenhouse SpA

Lebanon, Saudi Arabia and United Arab Emirates

Reed Stenhouse Middle East S.A.R.L.

Malaysia

Stenhouse Leow (Malaysia) Sdn. Bhd.

New Zealand

Reed Stenhouse Ltd.

Papua New Guinea

Reed Stenhouse (P.N.G.) Pty. Ltd.

Philippines

Reed Stenhouse Insurance Brokers, Inc.

Republic of Ireland

Reed Stenhouse Ltd.

Singapore

Reed Stenhouse Leow Pte. Ltd.
Sten-Re Asia Pte. Ltd.

South Africa

Stenhouse Hogg Robinson (Pty.) Ltd.

Spain

Reed Stenhouse Y Compañia, S.A.
Sten-Re S.A.

Sweden

J. Akerman A.B.

Switzerland

Reed Stenhouse International S.A.
Caviezol A.G.
Reinsurance Underwriting Agency A.G.

Taiwan

Reed Stenhouse Taiwan Ltd.

Thailand

Reed Stenhouse Jenkid Co. Ltd.

United Kingdom

Reed Stenhouse & Partners Ltd.
Reed Stenhouse Ltd.
Reed Stenhouse U.K. Ltd.
Reed Stenhouse Marketing Ltd.
Sten-Re Ltd.
Reed Stenhouse Underwriting
Management Ltd.
Stenhouse Syndicates Ltd.
Reed Stenhouse Benefit Consultants Ltd.
Julian Gibbs Associates Ltd.
Reed Stenhouse Pension Services Ltd.
Reed Stenhouse International Ltd.
Continental Life Insurance PLC
Continental Pensions PLC

United States of America

Reed Stenhouse Inc.
Great Eastern Associates Inc.
Reed Risk Management Inc.
Reed Stenhouse International Inc.
Sten-Re, Cole & Associates, Inc.
Reed Stenhouse Balanced Pensions, Inc.
Continental Reed Stenhouse
Management Company Ltd.

Zimbabwe

Associated Brokers International (PVT) Ltd.

Directors

Eric G. Bale, C.A.
Secretary-Treasurer

John S. Davidson

John B. Devine
Chairman & Chief Executive Officer,
Reed Stenhouse & Partners Ltd.

David C. French
Chairman, Reed Stenhouse Ltd.,
Australia, New Zealand and South East
Asia

W. Douglas H. Gardiner
Chairman

Angus Grossart, M.A., LL.B., C.A.

Cedric G. E. Gyles
President & Chief Executive Officer,
Reed Stenhouse Limited, Canada

Harry J. Harvey
Director, International Division

Herbert H. Houghton

Arthur W. John, C.B.E., F.C.A.

Peter G. Leitch
President & Chief Executive Officer,
Reed Stenhouse Inc., United States

Jack M. Moon
Vice-Chairman,
Reed Stenhouse Limited, Canada

**The Honourable John P. Robarts, P.C.,
C.C., Q.C., LL.D.**
Chairman,
Reed Stenhouse Limited, Canada

Raymond C. Strange, A.C.I.I.
Chairman, Stenhouse Syndicates Ltd.

James W. Whittall
Chairman,
Reed Stenhouse Inc., United States

William M. Wilson, C.A.
President & Chief Executive Officer

Executive Committee

Eric G. Bale
John. B. Devine
David C. French
Cedric G. E. Gyles
Harry J. Harvey
Peter G. Leitch
William M. Wilson
Chairman

Audit Committee

John S. Davidson
W. Douglas H. Gardiner
Angus Grossart
Arthur W. John
The Honourable John P. Robarts
Chairman

Transfer Agents

The Canada Trust Company in Toronto
Canada Permanent Trust Company in
other major Canadian cities

Stock Listings

The Company's Class A common
shares trade under the ticker symbol
RSS"A" on the following Canadian
Stock Exchanges:

The Toronto Stock Exchange
The Montreal Stock Exchange
The Vancouver Stock Exchange

Consolidated Balance Sheet

September 30, 1981
(with comparative figures as at September 30, 1980)

(Incorporated under the Canada Business Corporations Act)

Assets

1981

1980

(in thousands)

Current:

Cash and bank deposit receipts	\$145,942	\$125,681
Short-term deposits and loans	20,635	13,874
Accounts receivable	322,439	299,532
Prepaid expenses and other current assets	10,738	10,796
	<u>499,754</u>	<u>449,883</u>

Investments:

Affiliated companies	13,533	8,309
Securities on deposit and other quoted investments	871	922
Mortgages, loans and other investments (note 4)	7,706	5,302
	<u>22,110</u>	<u>14,533</u>

Fixed Assets:

Land, buildings and building improvements	20,583	20,115
Office furniture, equipment and vehicles	32,504	31,774
Leasehold improvements	7,481	6,670
Total, at cost	60,568	58,559
Less accumulated depreciation and amortization	18,867	16,776
	<u>41,701</u>	<u>41,783</u>

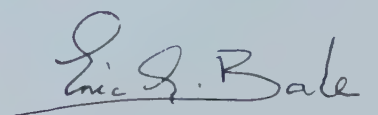
Intangible Assets:

Goodwill	63,042	59,842
Non-compete covenants	220	320
	<u>63,262</u>	<u>60,162</u>
Deferred debit, foreign currency translation	838	1,559
	<u>\$627,665</u>	<u>\$567,920</u>

On behalf of the board:



Director



Director

(See accompanying notes to consolidated financial statements)

Liabilities

1981 1980

(in thousands)

Current:

Due to banks	\$ 40,421	\$ 44,205
Accounts payable	389,651	345,738
Sundry payables and accrued charges	28,370	23,240
Income taxes payable	11,043	10,214
Term bank loans and notes payable, current portion	719	645
Deferred income taxes, current portion	15,738	13,176
Deferred commissions, current portion	667	708
	<u>486,609</u>	<u>437,926</u>

Long-term:

Term bank loans and notes payable (note 3)	13,729	13,104
Income taxes due beyond one year	3,260	3,812
Deferred income taxes	1,244	1,896
Deferred commissions	91	73
Other liabilities	795	708
	<u>19,119</u>	<u>19,593</u>
Minority interest	<u>4,117</u>	<u>3,628</u>

Shareholders' Equity (note 4):

Share capital	16,104	15,356
Preferred shares of Reed Stenhouse & Partners Limited	35	35
Contributed surplus	14,732	14,732
Retained earnings	86,949	76,650
	<u>117,820</u>	<u>106,773</u>
	<u>\$627,665</u>	<u>\$567,920</u>

Consolidated Statement of Earnings

For the year ended September 30, 1981
(with comparative figures for 1980)

	1981	1980
	(in thousands)	
Revenues:		
Commissions and fees earned, net	\$245,954	\$208,332
Interest and dividends	23,704	18,028
	<u>269,658</u>	<u>226,360</u>
Operating expenses:		
General	218,753	182,761
Depreciation and amortization of fixed assets	5,489	4,698
	<u>224,242</u>	<u>187,459</u>
	<u>45,416</u>	<u>38,901</u>
Interest expense:		
Long-term debt	2,172	1,598
Other	2,640	1,906
	<u>4,812</u>	<u>3,504</u>
Earnings before income taxes and other items	<u>40,604</u>	<u>35,397</u>
Income taxes:		
Current	17,303	16,951
Deferred	2,873	406
	<u>20,176</u>	<u>17,357</u>
Earnings before other items	<u>20,428</u>	<u>18,040</u>
Add (deduct) other items:		
Equity in earnings of affiliated companies	532	832
Minority interests	(1,452)	(750)
	<u>(920)</u>	<u>82</u>
Earnings before reduction of intangible assets	19,508	18,122
Reduction of intangible assets	(532)	(506)
Net earnings for the year	<u>\$ 18,976</u>	<u>\$ 17,616</u>

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Retained Earnings

For the year ended September 30, 1981
(with comparative figures for 1980)

	1981	1980
	(in thousands)	
Balance, beginning of year	\$76,650	\$66,561
Add net earnings for the year	18,976	17,616
	95,626	84,177
Deduct dividends paid (note 5)	8,677	7,527
Balance, end of year	\$86,949	\$76,650

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Reed Stenhouse Companies Limited

We have examined the consolidated balance sheet of Reed Stenhouse Companies Limited as at September 30, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

McLintock Main Lafrentz & Co.
Chartered Accountants

Toronto, Canada
December 7, 1981

Consolidated Statement of Changes In Financial Position

For the year ended September 30, 1981
(with comparative figures for 1980)

	1981	1980
	(in thousands)	
Source of funds:		
Operations —		
Net earnings for the year	\$ 18,976	\$ 17,616
Add items not involving working capital:		
Depreciation and amortization of fixed assets	5,489	4,698
Decrease in income taxes due beyond one year		
and other long-term liabilities	(1,099)	(1,035)
Other	1,452	424
Working capital provided from operations	24,818	21,703
Net increase in working capital on consolidating		
a company previously accounted for on equity basis		779
Decrease (increase) in deferred debit on foreign		
currency translation	721	(369)
Issue of Class "A" shares for cash (note 4)	291	171
	<u>25,830</u>	<u>22,284</u>
Application of funds:		
Non-current assets and liabilities relating to insurance		
businesses acquired		
Goodwill	3,618	2,076
Fixed and other assets	179	134
	<u>3,797</u>	<u>2,210</u>
Less:		
Notes payable and other liabilities, long-term portion	702	246
Minority interests in businesses acquired	66	56
	<u>768</u>	<u>302</u>
Net non-current assets acquired	3,029	1,908
Increase in affiliated companies	4,692	1,365
Increase in fixed and other assets	7,581	11,739
Price adjustments for goodwill in connection with		
businesses acquired previously	14	39
Decrease (increase) in term bank loans and notes payable	77	(309)
Decrease in minority interest in businesses		
acquired previously	1,029	143
Dividends paid in cash (note 5)	8,220	7,160
	<u>24,642</u>	<u>22,045</u>
Net increase in working capital for year	1,188	239
Working capital, beginning of year	11,957	11,718
Working capital, end of year	<u>\$ 13,145</u>	<u>\$ 11,957</u>
Represented by:		
Current assets	\$499,754	\$449,883
Less current liabilities	486,609	437,926
Working capital, end of year	<u>\$ 13,145</u>	<u>\$ 11,957</u>

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

September 30, 1981

1. Summary of Significant Accounting Policies

(a) Basis of consolidation:

The accompanying consolidated financial statements consolidate the accounts of Reed Stenhouse Companies Limited and all its subsidiary companies. The merger of Reed Stenhouse Companies Limited and Reed Stenhouse & Partners Limited effective October 1, 1972, is accounted for using the "pooling of interests" accounting method. Acquisitions of businesses are accounted for using the purchase method of accounting.

(b) Revenue recognition:

Commission revenue is generally recognized on the effective date of the policies. Where the policy and premium term exceed one year, a portion of the revenue is deferred to subsequent applicable years. Fees for actuarial and other consulting services are recognized when the services are rendered. (General expenses include the costs of servicing clients, which costs are expensed as incurred.)

(c) Foreign currency translation:

Non-current assets and liabilities of the company which are stated in a foreign currency and financial statements of subsidiary companies outside of Canada are translated into Canadian dollars as follows:

- (i) At rates of exchange prevailing at the balance sheet date
 - assets, other than Two South Place (the company's office building in London, England) and related accumulated depreciation, goodwill and non-compete covenants
 - liabilities
- (ii) At rates of exchange prevailing at dates of acquisition
 - Two South Place and related accumulated depreciation
 - goodwill and non-compete covenants and related charges against earnings
 - preferred shares of Reed Stenhouse & Partners Limited
- (iii) At average rates of exchange prevailing during the year
 - revenues
 - expenses (except for those in (ii) above)
 - dividends paid by subsidiary (note 5(b))

Because of circumstances which prevail and affect currencies internationally, the net accumulated unrealized debits and credits arising from exchange translation of balance sheet items are deferred and appear on the balance sheet at September 30, 1981. An unrealized exchange translation credit of \$721,000 arising on consolidation in 1981 is included in such deferral.

(d) Investments and marketable securities:

(i) Affiliated companies:
Investments in affiliated companies in which the company exercises significant influence are accounted for on the equity method. Under this method the company's share of the net earnings or

loss of such companies for the year is reflected in the consolidated statement of earnings. The investments are carried at cost of shares and advances plus the company's share of undistributed earnings since acquisition.

(ii) Other:

- securities on deposit and other quoted investments, at cost less amounts written off (this value approximates quoted market value)
- mortgages, loans and other investments, at cost

(e) Fixed assets:

Fixed assets are recorded at cost. Leasehold improvements are generally amortized over the terms of the related leases. Depreciation of other fixed assets, except land, is provided over their estimated useful lives at 2% for Two South Place and at rates varying from 10% to 33⅓% for the remainder.

(f) Other assets:

(i) Goodwill:

Goodwill is valued at cost less amounts written off. To comply with generally accepted accounting principles, goodwill on business acquisitions subsequent to March 31, 1974 is amortized on a straight line basis over 40 years (1981 — \$432,000; 1980 — \$312,000) and goodwill arising before and after that date is reduced when it is considered that there may be a permanent decline in its value (1981 — nil; 1980 — \$26,000).

(ii) Non-compete covenants:

The non-compete covenants are recorded at cost, less amortization. Amortization (1981 — \$100,000; 1980 — \$168,000) is provided on a straight line basis over the terms of the covenants.

(g) Income taxes:

For income tax purposes the Canadian companies are permitted to defer commission revenue in excess of the commission deferred in the accounts; the amount of income tax thus postponed is provided for in the liabilities as "deferred income taxes".

Since the company considers the undistributed earnings of foreign subsidiaries and affiliated companies to be permanently invested outside Canada, it does not make provision for income taxes which would become payable if such earnings were remitted to Canada.

(h) Pension plan:

The company and certain of its subsidiaries have contingent obligations for unfunded past service pension benefits estimated at \$11,063,000. It is intended that these contingent past service pension obligations be funded and charged against future earnings by payments of various amounts not exceeding \$1,265,000 annually over a period of 12 years with minimal amounts thereafter.

2. Segmented Information

The directors have determined that the company's business consists of one dominant industry segment which is that of providing services as insurance and reinsurance brokers and risk management consultants. In this capacity the company earns commissions, fees and investment income. Revenue is also developed from actuarial and other services in the employee benefit and related fields.

The following information summarizes the company's operations on a geographic basis (in thousands):

	Revenues	Operating Profit or (Loss)	Assets
1981			
Operating Regions:			
Canada	\$ 91,604	\$21,639	\$138,806
United States of America	45,817	(785)	70,300
United Kingdom and Ireland	83,625	14,941	229,489
Australia, New Zealand and South East Asia	30,984	7,831	137,122
Other	17,628	5,613	37,577
Corporate		(3,823)	14,371
Total	<u>\$269,658</u>	<u>45,416</u>	<u>\$627,665</u>
Interest expense		(4,812)	
Earnings before income taxes and other items		<u>\$40,604</u>	
1980			
Operating Regions:			
Canada	\$ 77,721	\$18,809	\$129,036
United States of America	36,429	(279)	72,541
United Kingdom and Ireland	72,645	14,121	205,188
Australia, New Zealand and South East Asia	24,125	5,607	112,378
Other	15,440	3,049	38,909
Corporate		(2,406)	9,868
Total	<u>\$226,360</u>	<u>38,901</u>	<u>\$567,920</u>
Interest expense		(3,504)	
Earnings before income taxes and other items		<u>\$35,397</u>	

3. Term Bank Loans and Notes Payable

(a) Details (with current interest rates at September 30, 1981 indicated) are as follows: (in thousands)

Term bank loans	
Due by instalments to October, 1988, payable in U.S. dollars (see (c) below) — interest at London Interbank Market rate on Eurodollars for various periods, plus 1%, (currently at various rates of approximately 18¼%)	\$ 8,621
Due by September, 1984, payable in U.S. dollars — interest at London Interbank Market rate on Eurodollars for various periods, plus ¾%, (currently at various rates of approximately 18%)	3,630
	<u>12,251</u>
Notes payable	
Notes due by instalments to February, 1990, payable in U.S. dollars — interest at various rates not exceeding 10%	2,161
Other	36
	<u>2,197</u>
Less portion due within one year	1,478
	<u>\$13,729</u>

(b) Principal due within the next five years is as follows:

(in thousands) 1982 — \$719; 1983 — \$1,776;
1984 — \$5,313; 1985 — \$1,549; 1986 — \$1,262.

(c) Term bank loans:

While certain term bank loans are collateralized by demand notes, the repayment terms are included in (a) and (b) above.

4. Shareholders' Equity

(a) Authorized Share Capital:

The company is authorized to issue an unlimited number of Class "A", Class "B" and Class "C" shares.

(b) Issued share capital:

	Number Issued	Amount
1981		(in thousands)
Class "A"	7,104,265	\$ 8,009
Convertible Class "B"	5,832,557	5,832
Convertible Class "C"	1,131,301	2,263
		<u>\$16,104</u>
1980		
Class "A"	7,031,687	\$ 7,261
Convertible Class "B"	5,832,557	5,832
Convertible Class "C"	1,131,301	2,263
		<u>\$15,356</u>

(c) Changes during the year:

Class "A" shares issued:

	Number	Consideration (in thousands)
For cash under Incentive Stock Option Plan (note 4(h))	34,950	\$291
Stock Dividends (note 4(e))	37,628	457
Total issued	<u>72,578</u>	<u>\$748</u>

(d) Rights:

Each Class "A", Class "B" and Class "C" share is entitled to one vote. Each Class "B" share may be converted at any time into one Class "A" share. Each Class "C" share may be converted into two Class "B" shares upon the issuance from treasury of one Class "A" share or if the Company should dispose of all or a substantial part of its assets or undertaking or if a takeover bid is made to the holders of the Class "A" shares. Class "A" and Class "B" shares are entitled to the same per share dividends and the Class "C" shares are entitled to twice such per share dividend. However, dividends paid on the special preferred shares of Reed Stenhouse & Partners Limited (see (f) below) reduce the dividends paid on the Class "B" and Class "C" shares.

(e) Stock Dividends:

Class "A" shareholders have the option to receive dividends in cash or Class "A" shares of the company. During the year 37,628 Class "A" shares were issued as stock dividends.

(f) Preferred shares of Reed Stenhouse & Partners Limited:

Reflected in the consolidated financial statements as part of shareholders' equity are 15,000 special preferred shares of Reed Stenhouse & Partners Limited, which are held by the company's Class "B" and Class "C" shareholder, with a stated capital value of £15,000 (\$35,250), which shares are non-voting and non-participating in winding up or liquidation beyond their paid-up value.

Earnings generated by the Reed Stenhouse & Partners Limited group will be available to satisfy the dividend entitlements of the United Kingdom shareholder (the Class "B" and Class "C" shareholder), the intention being to have the Class "B" and Class "C" shareholder receive all or most of the dividends to which it is entitled by way of direct dividends on the special preferred shares.

(g) Senior Executive Stock Purchase Plan:

Under the terms of the plan, eligible participants may be entitled to purchase Class "A" common shares from treasury at market prices existing at the date of issue using funds loaned to them by the company for this purpose. Shares purchased under this plan are held by a trustee until the related loans are repaid in full.

At September 30, 1981, loans made in a previous year amounting to \$466,800 are included in "mortgages, loans and other investments" and 40,000 Class "A" common shares remain reserved for possible issue under this plan.

(h) Incentive Stock Option Plan:

During the year, employees exercised options on 34,950 Class "A" shares at \$8.33 per share. At September 30, 1981, share options on 95,302

Class "A" shares, at a price of \$8.33 per share and exercisable to December 8, 1982, were outstanding to certain employees. A further 188,774 Class "A" shares remain reserved for possible issue under this plan at prices to be fixed by the directors.

5. Net Earnings Per Share and Dividends

(a) Net earnings per share:

	1981	1980
	(in dollars)	
Class "A"	1.25	1.17
Class "B"	1.25	1.17
Class "C"	2.50	2.34

The net earnings per share have been calculated using the weighted monthly average number of shares outstanding during the year (1981 — 15,161,934; 1980 — 15,083,420) which is the sum of the weighted monthly average number of Class "A" and Class "B" shares and twice the weighted monthly average number of Class "C" shares outstanding during the year. The calculations are based on the net earnings as shown by the consolidated statement of earnings. No deduction is made for dividends paid on the special preferred shares of Reed Stenhouse & Partners Limited since, as explained in note 4(d), such dividends apply to reduce the dividend entitlements of the Class "B" and Class "C" shares.

(b) Dividends:

Dividends paid during the year:

	1981	1980
	(in thousands)	
Dividends paid in cash		
Class "A" shareholders:		
Dividends on Class "A" shares paid by Reed Stenhouse Companies Limited at 57¢ (50¢ in 1980) per share	\$3,574	\$3,127
Class "B" and Class "C" shareholders:		
Dividends on special preferred shares of Reed Stenhouse & Partners Limited equivalent to 57¢ (50¢ in 1980) per Class "B" share and \$1.14 (\$1.00 in 1980) per Class "C" share	4,646	4,033
Amount paid in cash	8,220	7,160
Dividends paid in stock (note 4(e))	457	367
Total dividends paid	<u>\$8,677</u>	<u>\$7,527</u>

6. Commitments

(a) Lease:

Commitments under various leases for office premises call for minimum annual rentals within the next five years as follows (in thousands): 1982 — \$10,123; 1983 — \$9,327; 1984 — \$8,491; 1985 — \$7,777; 1986 — \$6,993.

There are no material capital leases.

(b) Other:

— Certain subsidiaries of the company have entered into commitments of \$1,800,000 for the purchase of fixed assets and the company and certain of its subsidiaries have entered into agreements to acquire insurance businesses and interests in insurance brokerage companies for consideration of approximately \$2,486,000, of which \$1,034,000 will be in consideration of the issue of 91,303 Class "A" shares.

— In certain areas where the company operates, legislation and commercial agreements exist whereby premiums received by the company are deemed to be held for the account of insurance companies and use of such funds may be restricted.

7. Related Party Transaction

During the year, the company expanded its Lloyd's underwriting agency management activities in conjunction with Stenhouse Holdings Limited (SHL), the company's principal shareholder.

On June 26, 1981, SHL purchased four Lloyd's underwriting agency management companies from Christopher Moran Group Limited, an unrelated party, for a cash consideration of approximately £3.1 million. Ownership of these companies was passed to a new holding company, Stenhouse Syndicates Limited (SSL) in exchange for an issue of SSL shares to SHL. On the same date, Reed Stenhouse & Partners Ltd. (RS&P), a wholly owned subsidiary of the company, sold to SSL 100% ownership of Stenhouse Reed Shaw (Underwriting Agencies) Ltd. for a consideration of approximately £2.1 million satisfied in full by the issue of SSL shares. The shares issued by SSL in respect of these transactions, were in the proportions of 40% to RS&P and 60% to SHL; and there was no accounting gain or loss with respect thereto.

The audited pre-tax profits of Stenhouse Reed Shaw (Underwriting Agencies) Ltd. for the year ended September 30, 1980 were £362,000 and the audited pre-tax profits of the companies acquired from the Christopher Moran Group Limited for the year ended January 31, 1981 were £548,000.

